

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**CRESCENT AFFORDABLE HOUSING
CORPORATION AND AFFILIATES**

DECEMBER 31, 2011 AND 2010

Crescent Affordable Housing Corporation and Affiliates

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Crescent Affordable Housing Corporation and Affiliates

We have audited the accompanying consolidated statements of financial position of Crescent Affordable Housing Corporation and Affiliates (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crescent Affordable Housing Corporation and Affiliates as of December 31, 2011 and 2010, and the changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2012, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information on pages 30 through 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Reznick Group, P.C.

Charlotte, North Carolina
June 28, 2012

Crescent Affordable Housing Corporation and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 1,484,278	\$ 2,768,880
Accounts receivable - tenant	22,480	39,521
Accounts receivable - other	4,314	-
Prepaid expenses	23,492	34,829
Due from related party	745,568	484,595
	<u>2,280,132</u>	<u>3,327,825</u>
Total Current Assets		
Restricted Deposits and Funded Reserves		
Resident security deposits	31,257	31,779
Replacement reserves	170,852	170,321
Other escrows	-	2,639,391
	<u>202,109</u>	<u>2,841,491</u>
Total Restricted Deposits and Funded Reserves		
Rental Property		
Buildings and improvements	33,389,772	33,211,144
Land improvements	4,860,619	4,860,619
Furniture, equipment and machinery	880,539	880,539
	<u>39,130,930</u>	<u>38,952,302</u>
Less accumulated depreciation	<u>(6,768,086)</u>	<u>(5,529,734)</u>
Total Rental Property	<u>32,362,844</u>	<u>33,422,568</u>
Other Noncurrent Assets		
Loan fees	1,232,307	1,339,657
Tax credit monitoring fees	8,991	9,898
Prepaid ground lease	76,417	77,361
Other assets	425	271,552
	<u>1,318,140</u>	<u>1,698,468</u>
Total Other Noncurrent Assets		
Total Assets	<u>\$ 36,163,225</u>	<u>\$ 41,290,352</u>

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2011 and 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities		
Accounts payable	\$ 122,782	\$ 67,570
Accrued expenses	372,213	547,537
Asset management fee payable	55,626	38,855
Due to related parties	2,486,368	5,676,884
Construction notes payable to related party	25,344,940	25,344,940
Accrued interest payable to related party	10,097,845	9,337,496
Total Current Liabilities	38,479,774	41,013,282
Deposits and Prepaid Liability		
Resident security deposits	37,542	31,717
Prepaid rent	-	1,172
Total Deposits and Prepaid Liability	37,542	32,889
Long-Term Liabilities		
Notes payable - related party	8,798,089	8,798,089
Accrued interest payable	497,903	396,024
Total Long-Term Liabilities	9,295,992	9,194,113
Unrestricted Net Assets, Crescent Affordable Housing Corporation	2,745,763	3,442,180
Unrestricted Net Assets, Noncontrolling Interest	(14,395,846)	(12,392,112)
Total Liabilities and Net Assets	\$ 36,163,225	\$ 41,290,352

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2011 and 2010

	2011	2010
Revenues		
Rental income	\$ 1,362,867	\$ 1,455,632
Vacancies and concessions	(123,155)	(143,324)
Other operating income	495,873	385,760
Total Revenue	1,735,585	1,698,068
Operating Expenses		
Salaries and employee benefits	362,996	329,313
Repairs and maintenance	399,594	436,165
Utilities	252,593	228,228
Property management fee	72,110	62,370
Property insurance	282,400	367,623
Miscellaneous operating expenses	424,756	546,963
Total Operating Expenses	1,794,449	1,970,662
Net Operating Income (Loss)	(58,864)	(272,594)
Nonoperating Income (Expenses)		
Interest income	4,438	5,929
Interest expense	(841,899)	(838,227)
Other financial income (expense)	(2,903)	(5,094)
Miscellaneous other income (expense)	(196,477)	(28,344)
Annual fee to affiliate of limited partner	(16,771)	(15,550)
Gain (loss) disposal of assets	-	(46,951)
Other related party fees and expenses	(20,435)	-
Depreciation	(1,238,352)	(1,290,556)
Amortization	(108,257)	(108,557)
Total Nonoperating Income (Expense)	(2,420,656)	(2,327,350)
Change in Net Assets	(2,479,520)	(2,599,944)
Attributable to Non-controlling Interest	(2,003,734)	(2,332,763)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ (475,786)	\$ (267,181)

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF NET ASSETS

Years ended December 31, 2011 and 2010

	Unrestricted Net Assets, Crescent Affordable Housing Corporation	Unrestricted Net Assets, Noncontrolling Interest
Balance January 1, 2010	\$ 3,709,361	\$ (10,059,349)
Change in Net Assets	<u>(267,181)</u>	<u>(2,332,763)</u>
Balance December 31, 2010	3,442,180	(12,392,112)
Distribution to affiliate	(220,631)	-
Change in Net Assets	<u>(475,786)</u>	<u>(2,003,734)</u>
Balance December 31, 2011	<u><u>\$ 2,745,763</u></u>	<u><u>\$ (14,395,846)</u></u>

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,479,520)	\$ (2,599,944)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	1,238,352	1,290,556
Amortization	108,257	108,557
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable - tenant	17,041	1,571
Accounts receivable - other	(4,314)	-
Prepaid expenses	12,281	22,381
Due from related party	17,823	(5,100)
Tenant security deposits, net	6,347	2,038
Other assets	271,127	(75)
Accounts payable	55,212	22,742
Accrued expenses	(175,324)	77,872
Asset management fee payable	16,771	15,550
Prepaid rent	(1,172)	(4,225)
Accrued interest payable to related party	862,228	857,428
Net cash used by operating activities	(54,891)	(210,649)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(178,628)	(26,935)
Replacement reserve, net	(531)	(1,623)
Advances to related party	(278,796)	-
Other escrows, net	2,639,391	107,245
Net cash provided by investing activities	2,181,436	78,687

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to affiliate	(220,631)	-
Due to related party	(3,190,516)	-
Net cash used by financing activities	(3,411,147)	-
Net decrease in cash and cash equivalents	(1,284,602)	(131,962)
Cash and cash equivalents, beginning of year	2,768,880	2,900,842
Cash and cash equivalents, end of year	\$ 1,484,278	\$ 2,768,880
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ -	\$ -

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Organization

Crescent Affordable Housing Corporation (CAHC) is a Louisiana not-for-profit corporation created in December 2003 by the Housing Authority of New Orleans (HANO) for the purpose of providing a financial entity to assist HANO in acquiring, financing, redeveloping, rehabilitating, and constructing affordable housing. CAHC is the sole member of Lune d'Or Enterprises, LLC (Lune d'Or), a for-profit entity created by HANO that serves as the managing member of several for-profit Limited Liability Companies (the LLC's) that own and operate affordable housing projects developed on properties owned by HANO. CAHC is also the sole member of Place D'Genesis, LLC (Place D'Genesis); a for-profit entity with the purpose to acquire, finance, construct, redevelop and rehabilitate affordable housing.

CAHC is a component unit of HANO under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. CAHC is presented as a blended component unit of HANO as there is a financial benefit/burden relationship with HANO. HANO has the ability to influence the operations of CAHC as its board of directors is appointed by HANO and any changes to CAHC's by-laws must be approved by HANO.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CAHC, Lune d'Or, and Place D'Genesis. In addition, the balances of Lune d'Or include investments in limited liability companies in which Lune d'Or has a controlling interest and accounts of 3 limited liability companies in which Lune d'Or has a .01 percent interest. These entities are included in the consolidation according to accounting principles generally accepted in the United States of America (GAAP) which require Lune d'Or consolidate the accounts of all limited liability companies that it controls. All significant intercompany transactions have been eliminated in consolidation. The limited liability companies included in the consolidation (in the balances of Lune d'Or) are as follows:

<u>Entity</u>	<u>Percentage Ownership</u>	<u>Number of Units</u>
Fischer I, LLC	0.01%	20
Fischer III, LLC	0.01%	103
Guste I, LLC	0.01%	82
Florida IIa, LLC	100.00%	N/A

There are two additional entities, CJP Rental I, LLC and St. Bernard Rental I, LLC, in which CAHC has a minority interest, which are not controlled by CAHC and do not require inclusion in the consolidated financial statements.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

For purposes of the statements of cash flows, CAHC considers all cash balances and highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Tenant Receivables

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. GAAP require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Deferred Financing Fees

Financing fees are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Tax credit monitoring fees are being amortized using the straight-line method over the fifteen-year tax credit compliance period.

Amortization expense for the years ended December 31, 2011 and 2010 was \$108,257 and \$108,557, respectively.

Estimated amortization expense for each of the ensuing years and thereafter is as follows:

	<u>Fischer I, LLC</u>	<u>Fischer II, LLC</u>	<u>Guste I, LLC</u>	<u>Total</u>
2012	\$ 133	\$ 38,464	\$ 69,960	\$ 108,557
2013	133	38,464	69,960	108,557
2014	133	38,464	69,960	108,557
2015	133	38,464	69,960	108,557
2016	113	38,464	69,960	108,537
Thereafter	612	269,990	427,931	698,533
	<u>\$ 1,257</u>	<u>\$ 462,310</u>	<u>\$ 777,731</u>	<u>\$ 1,241,298</u>

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Rental Property

Rental property is recorded at cost. Depreciation of rental property is computed primarily using the following methods and estimated useful lives:

	Useful Lives	Method
Buildings	40 years	Straight-line
Land and improvements	20 years	Declining balance
Furniture and equipment	10 years	Declining balance

Impairment of Long-Lived Assets

The Company reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2011 and 2010.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the properties are operating leases.

Advertising Costs

The Company's policy is to expense advertising costs when incurred.

Income Taxes

CAHC has been classified as a publicly supported organization under Internal Revenue Code Section 501(c)(3) and not as a private foundation. Therefore, it is generally not subject to income tax.

Lune d'Or and Place D'Genesis have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to CACH and the other owners of the consolidated entities. Lune d'Or and Place D'Genesis' federal tax status as pass-through

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

entities is based on their legal status as single-member limited liability companies. Accordingly, neither entity is required to take any tax positions in order to qualify as pass-through entities. Three limited liability companies included in Lune d'Or are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Economic Concentrations

Lune d'Or has ownership in three entities in which each operates a property in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Unrestricted Net Assets Noncontrolling interest

Interests held by investor members in limited liability companies consolidated into Lune d'Or are reflected in unrestricted net assets non-controlling interest on the consolidated financial statements. Noncontrolling interest represents the 99.99 percent share of the underlying negative equity of those limited liability companies, not wholly owned by Lune d'Or.

NOTE 3 - RESTRICTED CASH

Restricted Cash

A Revolving Line of Credit Loan Agreement between CAHC and Lune d' Or was executed on January 20, 2005, which provides a \$1,300,000 revolving line of credit to Lune d' Or. The line of credit was established to enable Lune d' Or to guarantee obligations as the managing member of 3 limited liability companies in which Lune d'Or is the managing member. As part of the agreement, CAHC established a restricted cash account to maintain an amount not less than \$1,300,000. As of December 31, 2011 and 2010, the balance of the restricted funds account was \$0 and \$554,810, respectively, and was not in compliance with the agreement.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Pursuant to the construction loan agreements between HANO and Guste I, LLC, Fischer I, LLC and Fischer III, LLC, HANO established a cash collateral account which is used to deposit the proceeds of the respective construction loans. As of December 31, 2011 and 2010, the balance of the restricted cash was \$0 and \$2,084,581, respectively. During 2011, the balance was used to pay down advances owed to HANO

The above funds are in a money market account and are stated at fair value. The fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, fair value is determined using quoted market prices, a Level 1 or an observable input. At December 31, 2011 and 2010, the fair value approximated the carrying value.

Replacement Reserve

Pursuant to the Operating Agreement, Guste I, LLC is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Monthly deposits are required in the amount of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2011 and 2010, no amounts had been funded.

Pursuant to the Operating Agreement, Fischer I, LLC shall establish a reserve account for capital replacements, funded by monthly deposits of \$417, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2011 and 2010, the replacement reserve balance was \$46,052 and \$45,917, respectively.

Pursuant to the Operating Agreement, Fischer III, LLC shall establish a reserve account for capital replacements, funded by monthly deposits of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2011 and 2010, the replacement reserve balance was \$124,800 and \$124,404, respectively.

NOTE 4 - CONTRACT SUBSIDY RECEIVABLE

Sixty-seven units within Guste I, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2011 and 2010, the Company earned operating fund assistance in the amount of \$200,545 and \$212,486, respectively. This amount is included in rental income in the statements of activities.

Sixty-nine units within Fischer III, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2011, the Company began receiving operating fund assistance in the amount of \$133,274. This amount is included in rental income in the statements of activities.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Twelve units within Fischer I, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2011, the Company earned operating fund assistance in the amount of \$42,894. This amount is included in rental income in the statements of activities. No subsidy payments were received in 2010.

NOTE 5 - RELATED PARTY TRANSACTIONS

Operating Subsidy

During 2011 and 2010, Guste I, LLC received rent assistance subsidy from HANO in the amount of \$182,711 and \$212,943, respectively. In addition, during 2011 Guste I, LLC received operating subsidy from HANO to pay for repairs due to faulty construction in the amount of \$65,900. During 2010, Guste I, LLC received operating subsidy from HANO to pay property insurance in the amount of \$115,503.

Guste I, LLC is due \$320,029 and \$484,595 as of December 31, 2011 and 2010, respectively, as a result of rental and other subsidy received from HANO in 2009 and earlier years. During 2011, it was determined HANO will not pay \$230,466 of the balance as this amount could not be substantiated. The amount was written-off against amounts owed by Guste I, LLC to HANO. The outstanding balance is expected to be received in 2012 thus has been classified as a current asset in the accompanying statements of financial position.

During 2011 and 2010, Fischer III, LLC received rent assistance subsidy from HANO in the amount of \$204,210 and \$235,387, respectively. In addition, Fischer III, LLC received operating subsidy from HANO amounting to \$216,277 and \$193,443 during 2011 and 2010, respectively, for building repairs paid for by HANO in 2011 and the allocated insurance premiums paid by HANO on behalf of Fischer III, LLC in 2010 and are included in other operating income in the statements of activities. The balance due from HANO as of December 31, 2011 is \$146,743. The 2010 amount had been paid as of December 31, 2010.

During 2011 and 2010, Fischer I, LLC received rent assistance subsidy from HANO in the amount of \$31,798 and \$35,679, respectively. In addition, Fischer I, LLC received operating subsidy from HANO amounting \$178,628 and \$28,163 during 2011 and 2010, respectively, for building improvements paid for by HANO in 2011 and the allocated insurance premiums paid by HANO on behalf of Fischer I, LLC in 2010 and are included in other operating income in the statements of activities. All amounts have been received as of December 31, 2011 and 2010.

Other

During 2011, bank accounts for CACH and Place D' Genesis were closed and the funds were combined with bank accounts of HANO. The balance due to CACH and Place D' Genesis at December 31, 2011 was \$253,443 and \$25,353, respectively. The cash is readily available for use by CACH and Place D' Genesis.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Developer Agreement

Guste I, LLC, Fischer I, LLC and Fischer III, LLC entered into a development agreement with CAHC. The agreement provides for development fee and overhead for services in connection with the development of each Project and supervision of the construction. Development fees are earned based upon the occurrence of certain events, as defined, during development and construction. Total developer fees are as follows:

	Total Development Fee	Amount Earned and Payable
Fischer I, LLC	\$ 279,026	\$ 231,036
Fischer III, LLC	1,355,564	1,055,564
Guste I, LLC	1,199,510	899,510
	<u>\$ 2,834,100</u>	<u>\$ 2,186,110</u>

Asset Management Fee

Pursuant to the Operating Agreement, the Investor Member of Guste I, LLC, Fischer I, LLC and Fischer III, LLC shall earn an annual, cumulative fee. The fee is adjusted each year for the changes in the Consumer Price Index. Total fees earned and payable as of December 31, 2011 and 2010 and for the years then ended is as follows:

	2011		2010	
	Fees Earned	Amount Payable	Fees Earned	Amount Payable
Fischer I, LLC	\$ 5,000	\$ 11,563	\$ 4,063	\$ 6,563
Fischer III, LLC	6,005	27,240	5,917	21,235
Guste I, LLC	5,766	16,823	5,570	11,057
	<u>\$ 16,771</u>	<u>\$ 55,626</u>	<u>\$ 15,550</u>	<u>\$ 38,855</u>

Due to HANO

During 2006 through 2011, the Company incurred costs due to HANO. The advances related to the miscellaneous costs associated with the construction and operations of various projects. The advances do not bear interest and are to be paid from any remaining mortgage proceeds, capital contributions, and cash flow. As of December 31, 2011 and 2010, advances

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

totaling \$2,486,368 and \$5,676,884, respectively, is payable to HANO and is included in due to related party in the accompanying consolidated statements of net assets.

City Grant Funds due to HANO

The Company received from HANO advances from a City of New Orleans grant in 2008. During 2010, it was discovered that a portion of the funds were not qualified costs under the grant and are due back to HANO. As of December 31, 2011 and 2010, the balance is \$402,235 and \$632,701, respectively. The amount is included in due to related party and is payable out of the other escrow deposits.

Management Fees

Fischer III, LLC incurred management fees due to HANO prior to 2009 of which the outstanding balance of \$48,880 remains payable at December 31, 2011 and 2010 and are included in due to related party in the accompanying statements of net assets.

NOTE 6 - CONSTRUCTION NOTES PAYABLE

Guste I, LLC

In December 2003, Guste I, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of the note was \$13,189,372. In January 2005, Guste I, LLC entered into a new financing agreement in the amount of \$10,643,312 with HANO. The loan bears interest at 3 percent with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended through December 31, 2011. The outstanding principal as of December 31, 2011 and 2010 was \$10,634,312 for both years. For the years ended December 31, 2011 and 2010, Guste I, LLC expensed interest in the amount of \$319,029 for each year. Accrued interest at December 31, 2011 and 2010 was \$3,176,998 and \$2,857,969, respectively.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member. During 2010, HANO modified and extended the mortgage note, reducing the interest rate to 3 percent, with a maturity date of December 31, 2011. HANO does not hold Guste I, LLC in default.

Fischer III, LLC

In December 2003, Fischer III, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

the note was \$13,634,195. In January 2005, Fischer III, LLC entered into a new financing agreement in the amount of \$14,710,628 with HANO. The loan bears interest at 3 percent with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended through December 31, 2011. Outstanding principal as of December 31, 2011 and 2010 was \$14,710,628 for both years. Total interest expense for 2011 and 2010 was \$441,319 for each year. Accrued interest as December 31, 2011 and 2010 was \$6,920,847 and \$6,479,527, respectively.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member. During 2010, HANO modified and extended the mortgage note, reducing the interest rate to 3 percent, with a final maturity date of December 31, 2011. HANO does not hold Fischer III, LLC in default.

NOTE 7 - NOTES PAYABLE - RELATED PARTY

Notes payable to HANO consists of the following at December 31, 2011 and 2010:

	2011	2010
<u>Guste I, LLC</u>		
In November 2006, a supplemental loan in the amount of \$2,939,498 was obtained from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061.	\$ 2,939,498	\$ 2,939,498
In January 2005, a construction loan in the amount of \$248,999 was obtained from HANO. The construction loan accrues interest at 3 percent with both the unpaid principal and interest due on January 31, 2060. For the years ended December 31, 2011 and 2010, interest incurred was \$7,470 for both years. Accrued interest was \$51,979 and \$44,509 at December 31, 2011 and 2010, respectively.	248,999	248,999

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	2011	2010
<u>Fischer I, LLC</u>		
During 2005, a Capital Funds Note was obtained from HANO to provide financing for the development of the Project. During 2007, there was an addition to the balance of this loan when HANO reimbursed JPMorgan Chase Bank for an outstanding construction loan. The loan bears interest at the long term applicable federal rate, which was 4.68 percent at the time the loan was funded, and is collateralized by the Project. All unpaid principal and interest is due on January 31, 2060, and payments on the loan are to be made from surplus cash. Interest incurred during the years ended December 31, 2011 and 2010 was \$79,722 and \$76,158, respectively. Accrued interest payable as of December 31, 2011 and 2010 is \$359,118 and \$279,396, respectively.	1,424,059	1,424,059
On January 20, 2005, a Program Income Construction Mortgage Note was obtained from HANO in the amount of \$196,300. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Projects, and bears interest annually at the long term applicable federal rate, which was 4.76 percent at the time the loan was funded. The loan is collateralized by the Project, and the entire amount of unpaid principal and interest is due and payable on January 31, 2060. Interest incurred during the years ended December 31, 2011 and 2010 was \$12,965 and \$11,731, respectively. Accrued interest payable as of December 31, 2011 and 2010 is \$74,848 and \$61,883, respectively.	196,300	196,300

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	2011	2010
On November 1, 2006, a Supplemental Loan was obtained from HANO in the amount of \$130,000. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash.	130,000	130,000
On November 16, 2005, an Affordable Housing Program Loan was obtained from HANO in the amount of \$100,000, to assist with financing the Project. The loan bears no interest, and is collateralized by the Project. The loan matures fifteen years from completion of the Project, which occurred on May 27, 2006. The Affordable Housing Program Loan is payable from remaining mortgage proceeds, capital contributions, and available cash flow from the Project.	100,000	100,000
<u>Fischer III, LLC</u>		
On November 1, 2006, a Supplemental Loan was obtained with HANO in the amount of \$3,064,919. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash.	3,064,919	3,064,919
On November 16, 2005, an Affordable Housing Program Loan was obtained from HANO, in the amount of \$350,000, to assist the Company in financing the Project. The loan bears no interest, is collateralized by the Project, and is payable from remaining mortgage proceeds, capital contributions, and available cash flows from the Project. The loan will be maintained for 15 years from the date of Project completion.	350,000	350,000

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
In November 2005, a Program Income Loan was obtained HANO, in the amount of \$344,314. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Project, is collateralized by the Project, and accrues interest at 0.5 percent. The loan is due January 2, 2060 and payments are to be made from cash flow as defined by the Operating Agreement. Interest incurred during the years ended December 31, 2011 and 2010 was \$1,722 for both years. Accrued interest at December 31, 2011 and 2010 as \$11,958 and \$10,236, respectively.		
	<u>344,314</u>	<u>344,314</u>
	<u>\$ 8,798,089</u>	<u>\$ 8,798,089</u>

NOTE 8 - MANAGEMENT AGREEMENT

Guste I, LLC

Guste I, LLC has entered into a management agreement with Guste Homes Resident Management Corporation (Guste RMC) for a monthly management fee equal to \$23.50 per each occupied unit per month. For the years ended December 31, 2011 and 2010, \$22,795 and \$22,560 was charged to operations, of which no amounts remain payable.

The Company has a payable to Guste RMC of \$13,570 and \$540,873 at December 31, 2011 and 2010, respectively, for unpaid reimbursement of payroll and other services. The payable is included in accrued expenses in the accompanying consolidated statements of net assets.

Fischer I, LLC

Beginning in March 2011, Fischer I, LLC entered into an agreement with Guste RMC in connection with the management of the rental operations of the Project. The property management fee is calculated in the amount of \$35 per occupied unit month, Total management fees incurred under this agreement for the year ended December 31, 2011 was \$6,650.

The prior management agreement was with Latter & Blum Property Management, Inc. The property management fee was \$30 per occupied unit per month of which rent was actually

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

received. For the years ended December 31, 2011 and 2010, \$1,537 and \$6,540, respectively, was incurred and paid under the agreement.

Fischer III, LLC

Beginning in March 2011, Fischer III, LLC entered into an agreement with Guste RMC, in connection with the management of the rental operations of the Project. The property management fee is calculated in the amount of \$35 per occupied unit month, Total management fees incurred under this agreement for the year ended December 31, 2011 was \$32,218.

The prior management agreement was with Latter & Blum Property Management, Inc. The property management fee was \$30 per occupied unit per month of which rent was actually received. For the years ended December 31, 2011 and 2010, \$8,910 and \$33,270, respectively, was incurred and paid under the agreement.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Company maintains its cash and cash equivalents with financial institutions. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2011 and 2010.

NOTE 10 - GROUND LEASES

Guste I, LLC

On December 30, 2003, Guste I, LLC entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from Guste I, LLC on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2011 and 2010, the prepaid ground lease was \$38,205 and \$38,677, respectively.

Fischer I, LLC

Fischer I, LLC entered into a ground lease with HANO. Fischer I, LLC is bound by the responsibilities and obligations of the ground lease. Under the ground lease, annual rent of \$10 is due and payable for each lease year in advance on the first day of each lease year. The lease term ends at the latest to occur of (1) the expiration of the minimum period during which the Public Housing Units are required by law to be operated as public housing, (2) 40 years from the date the Project becomes available for occupancy, and (3) 89 years. The lease also has provisions extending the ground lease, but in no event will the lease extend beyond 95 years.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Fischer III, LLC

On December 30, 2003, Fischer III, LLC entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from Fischer III on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2011 and 2010, the prepaid ground lease was \$38,212 and \$38,684, respectively.

NOTE 11 - CONTINGENCIES

Tax Credits

For Guste I, LLC, Fischer I, LLC, and Fischer III, LLC, the low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Member of each entity.

NOTE 12 - SUBSEQUENT EVENTS

Events that occur after the date of the statements of net assets but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statements of net assets are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statements of net assets require disclosure in the accompanying notes. Management evaluated the activity of the Company through June 28, 2012 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 13 - CHANGES IN REPORTING ENTITY

During the year ended December 31, 2011 Lune d'Or disposed of its controlling interest in B.W. Cooper I, LLC. As a result, B.W. Cooper I, LLC is no longer consolidated as part of the Lune d'Or financial statements. The effect of the change is a change in Reporting Entity in accordance with GAAP as there is a change in the subsidiaries that are included in the consolidated financial statements. Accordingly, the accounting change was applied to the 2010 consolidated financial statements. The change in unrestricted net assets for CHAC is as follows:

	Balance as previously reported	Balance related to BW Cooper I, LLC	Balance after the accounting change
Unrestricted net assets at January 1, 2010	<u>\$ 3,663,230</u>	<u>\$ (46,101)</u>	<u>\$ 3,709,331</u>
Change in net assets for 2010	<u>\$ (1,728,605)</u>	<u>\$ (1,461,424)</u>	<u>\$ (267,181)</u>

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

The effect of the change in reporting entity for 2010 is as follows:

	Balance December 31, 2010, as previously reported	Balance Related to BW Cooper I, LLC	Balance December 31, 2010, after accounting change
Current Assets			
Cash and cash equivalents	\$ 8,581,814	\$ 5,812,934	\$ 2,768,880
Accounts receivable - tenant	39,521	-	39,521
Accounts receivable - other	484,595	-	484,595
Prepaid expenses	34,829	-	34,829
	<u>9,140,759</u>	<u>5,812,934</u>	<u>3,327,825</u>
Total Current Assets			
Restricted Deposits and Funded Reserves			
Resident security deposits	31,779	-	31,779
Replacement reserve	170,321	-	170,321
Other escrows	2,639,391	-	2,639,391
	<u>2,841,491</u>	<u>-</u>	<u>2,841,491</u>
Total Restricted Deposits and Funded Reserves			
Rental Property			
Buildings and improvements	33,211,144	-	33,211,144
Land improvements	4,860,619	-	4,860,619
Furniture, equipment and machinery	880,539	-	880,539
Construction in progress	27,869,522	27,869,522	-
	<u>66,821,824</u>	<u>27,869,522</u>	<u>38,952,302</u>
Less accumulated depreciation	(5,529,734)	-	(5,529,734)
	<u>61,292,090</u>	<u>27,869,522</u>	<u>33,422,568</u>
Total Rental Property			
Other Noncurrent Assets			
Loan fees	1,339,657	-	1,339,657
Tax credit monitoring fees	9,898	-	9,898
Prepaid ground lease	881,907	804,546	77,361
Other assets	271,552	-	271,552
	<u>2,503,014</u>	<u>804,546</u>	<u>1,698,468</u>
Total Other Noncurrent Assets			
Total Assets	<u>\$ 75,777,354</u>	<u>\$ 34,487,002</u>	<u>\$ 41,290,352</u>

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	Balance December 31, 2010, as previously reported	Balance Related to BW Cooper I, LLC	Balance December 31, 2010, after accounting change
Current Liabilities			
Accounts payable	\$ 120,157	\$ 52,587	\$ 67,570
Accrued expenses	547,537	-	547,537
Asset management fee payable	38,855	-	38,855
Developer fee payable	-	-	-
Due to related party	9,020,419	3,343,535	5,676,884
Construction note payable to related party	25,344,940	-	25,344,940
Accrued interest payable to related party	9,337,496	-	9,337,496
Total Current Liabilities	<u>44,409,404</u>	<u>3,396,122</u>	<u>41,013,282</u>
Deposits and Prepaid Liability			
Resident security deposits	31,717	-	31,717
Prepaid rent	1,172	-	1,172
Total deposits and prepaid liability	<u>32,889</u>	<u>-</u>	<u>32,889</u>
Long-Term Liabilities			
Notes payable - related party	37,779,894	28,981,805	8,798,089
Accrued interest payable	4,012,624	3,616,600	396,024
Total Long-Term Liabilities	<u>41,792,518</u>	<u>32,598,405</u>	<u>9,194,113</u>
Unrestricted Net Assets, Crescent Affordable Housing Corporation	1,934,655	(1,507,525)	3,442,180
Unrestricted Net Assets, Noncontrolling Interest	<u>(12,392,112)</u>	<u>-</u>	<u>(12,392,112)</u>
Total Unrestricted Net Assets	<u>(10,457,457)</u>	<u>(1,507,525)</u>	<u>(8,949,932)</u>
Total Liabilities and Unrestricted Net Assets	<u>\$ 75,777,354</u>	<u>\$ 34,487,002</u>	<u>\$ 41,290,352</u>

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	Balance December 31, 2010, as previously reported	Balance Related to BW Cooper I, LLC	Balance December 31, 2010, after accounting change
Revenue			
Rental income	\$ 1,455,632	\$ -	\$ 1,455,632
Vacancies and concessions	(143,324)	-	(143,324)
Other operating income	385,760	-	385,760
	<u>1,698,068</u>	<u>-</u>	<u>1,698,068</u>
Total Revenue			
	<u>1,698,068</u>	<u>-</u>	<u>1,698,068</u>
Operating Expenses			
Salaries and employee benefits	329,313	-	329,313
Repairs and maintenance	436,165	-	436,165
Utilities	228,228	-	228,228
Property management fee	62,370	-	62,370
Property insurance	367,623	-	367,623
Miscellaneous operating expenses	576,332	29,369	546,963
	<u>2,000,031</u>	<u>29,369</u>	<u>1,970,662</u>
Total Operating Expenses			
	<u>2,000,031</u>	<u>29,369</u>	<u>1,970,662</u>
Net Operating Income (Loss)	<u>(301,963)</u>	<u>(29,369)</u>	<u>(272,594)</u>
Other Income (Expense)			
Interest income	12,064	6,135	5,929
Interest expense	(2,252,640)	(1,414,413)	(838,227)
Other financial income (expense)	(5,094)	-	(5,094)
Miscellaneous other income (expense)	(52,121)	(23,777)	(28,344)
Annual fee to affiliate of limited partner	(15,550)	-	(15,550)
Other related party fees and expenses	(46,951)	-	(46,951)
Depreciation	(1,290,556)	-	(1,290,556)
Amortization	(108,557)	-	(108,557)
	<u>(3,759,405)</u>	<u>(1,432,055)</u>	<u>(2,327,350)</u>
Total Other Income (Expenses)			
	<u>(3,759,405)</u>	<u>(1,432,055)</u>	<u>(2,327,350)</u>
Change in Net Assets	<u>(4,061,368)</u>	<u>(1,461,424)</u>	<u>(2,599,944)</u>
Attributable to Non-controlling Interest	<u>(2,332,763)</u>	<u>-</u>	<u>(2,332,763)</u>
Change in Net Assets Attributable to Creascent Affordable Housing Corporation	<u>\$ (1,728,605)</u>	<u>\$ (1,461,424)</u>	<u>\$ (267,181)</u>

SUPPLEMENTAL INFORMATION

Crescent Affordable Housing Corporation and Affiliates
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2011

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 872,971	\$ -	\$ 611,307	\$ -	\$ 1,484,278
Development fees receivable	2,186,110	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	22,480	-	22,480
Accounts receivable - other	-	-	4,314	-	4,314
Prepaid expenses	-	-	23,492	-	23,492
Due from related party	253,443	25,353	466,772	-	745,568
Total Current Assets	3,312,524	25,353	1,128,365	(2,186,110)	2,280,132
Restricted Deposits and Funded Reserves					
Resident security deposits	-	-	31,257	-	31,257
Replacement reserves	-	-	170,852	-	170,852
Total Restricted Deposits and Funded Reserves	-	-	202,109	-	202,109
Rental Property					
Buildings and improvements	-	-	33,389,772	-	33,389,772
Land improvements	-	-	4,860,619	-	4,860,619
Furniture, equipment and machinery	-	-	880,539	-	880,539
	-	-	39,130,930	-	39,130,930
Less accumulated depreciation	-	-	(6,768,086)	-	(6,768,086)
Total Rental Property	-	-	32,362,844	-	32,362,844
Other Noncurrent Assets					
Loan fees	-	-	1,232,307	-	1,232,307
Tax credit monitoring fees	-	-	8,991	-	8,991
Prepaid ground lease	-	-	76,417	-	76,417
Other assets	651,342	-	425	(651,342)	425
Total Other Noncurrent Assets	651,342	-	1,318,140	(651,342)	1,318,140
Total Assets	\$ 3,963,866	\$ 25,353	\$ 35,011,458	\$ (2,837,452)	\$ 36,163,225

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2011

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 31,169	\$ 6,734	\$ 84,879	\$ -	\$ 122,782
Accrued expenses	-	-	372,213	-	372,213
Asset management fee payable	-	-	55,626	-	55,626
Developer fee payable	-	-	2,186,110	(2,186,110)	-
Due to related parties	719,272	-	1,767,096	-	2,486,368
Construction note payable to related party	-	-	25,344,940	-	25,344,940
Accrued interest payable to related party	-	-	10,097,845	-	10,097,845
Total Current Liabilities	750,441	6,734	39,908,709	(2,186,110)	38,479,774
Deposits and Prepaid Liability					
Resident security deposits	-	-	37,542	-	37,542
Total Deposits and Prepaid Liability	-	-	37,542	-	37,542
Long-Term Liabilities					
Notes payable - related party	-	-	8,798,089	-	8,798,089
Accrued interest payable	-	-	497,903	-	497,903
Total Long-Term Liabilities	-	-	9,295,992	-	9,295,992
Unrestricted Net Assets, Crescent Affordable Housing Corporation	3,213,425	18,619	165,061	(651,342)	2,745,763
Unrestricted Net Assets, Noncontrolling Interest	-	-	(14,395,846)	-	(14,395,846)
Total Liabilities and Net Assets	\$ 3,963,866	\$ 25,353	\$ 35,011,458	\$ (2,837,452)	\$ 36,163,225

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 535,623	\$ 25,334	\$ 2,207,923	\$ -	\$ 2,768,880
Development fees receivable	2,186,110	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	39,521	-	39,521
Prepaid expenses	-	-	34,829	-	34,829
Due from related party	-	-	484,595	-	484,595
Total Current Assets	2,721,733	25,334	2,766,868	(2,186,110)	3,327,825
Restricted Deposits and Funded Reserves					
Resident security deposits	-	-	31,779	-	31,779
Replacement reserves	-	-	170,321	-	170,321
Other escrows	554,810	-	2,084,581	-	2,639,391
Total Restricted Deposits and Funded Reserves	554,810	-	2,286,681	-	2,841,491
Rental Property					
Buildings and improvements	-	-	33,211,144	-	33,211,144
Land improvements	-	-	4,860,619	-	4,860,619
Furniture, equipment and machinery	-	-	880,539	-	880,539
	-	-	38,952,302	-	38,952,302
Less accumulated depreciation	-	-	(5,529,734)	-	(5,529,734)
Total Rental Property	-	-	33,422,568	-	33,422,568
Other Noncurrent Assets					
Loan fees	-	-	1,339,657	-	1,339,657
Tax credit monitoring fees	-	-	9,898	-	9,898
Prepaid ground lease	-	-	77,361	-	77,361
Other assets	651,342	-	271,552	(651,342)	271,552
Total Other Noncurrent Assets	651,342	-	1,698,468	(651,342)	1,698,468
Total Assets	\$ 3,927,885	\$ 25,334	\$ 40,174,585	\$ (2,837,452)	\$ 41,290,352

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2010

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 22,898	\$ 6,734	\$ 37,938	\$ -	\$ 67,570
Accrued expenses	-	-	547,537	-	547,537
Asset management fee payable	-	-	38,855	-	38,855
Developer fee payable	-	-	2,186,110	(2,186,110)	-
Due to related parties	487,493	-	5,189,391	-	5,676,884
Construction notes payable to related party	-	-	25,344,940	-	25,344,940
Accrued interest payable to related party	-	-	9,337,496	-	9,337,496
Total Current Liabilities	510,391	6,734	42,682,267	(2,186,110)	41,013,282
Deposits and Prepaid Liability					
Resident security deposits	-	-	31,717	-	31,717
Prepaid rent	-	-	1,172	-	1,172
Total Deposits and Prepaid Liability	-	-	32,889	-	32,889
Long-Term Liabilities					
Notes payable - related party	-	-	8,798,089	-	8,798,089
Accrued interest payable	-	-	396,024	-	396,024
Total Long-Term Liabilities	-	-	9,194,113	-	9,194,113
Unrestricted Net Assets, Crescent Affordable Housing Corporation	3,417,494	18,600	657,428	(651,342)	3,442,180
Unrestricted Net Assets, Noncontrolling Interest	-	-	(12,392,112)	-	(12,392,112)
Total Liabilities and Net Assets	\$ 3,927,885	\$ 25,334	\$ 40,174,585	\$ (2,837,452)	\$ 41,290,352

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2011

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Revenue					
Rental income	\$ -	\$ -	\$ 1,362,867	\$ -	\$ 1,362,867
Vacancies and concessions	-	-	(123,155)	-	(123,155)
Other operating income	-	-	495,873	-	495,873
Total Revenue	-	-	1,735,585	-	1,735,585
Operating Expenses					
Salaries and employee benefits	-	-	362,996	-	362,996
Repairs and maintenance	-	-	399,594	-	399,594
Utilities	-	-	252,593	-	252,593
Property management fee	-	-	72,110	-	72,110
Property insurance	-	-	282,400	-	282,400
Miscellaneous operating expenses	280,974	-	143,782	-	424,756
Total Operating Expenses	280,974	-	1,513,475	-	1,794,449
Net Operating Income (Loss)	(280,974)	-	222,110	-	(58,864)
Nonoperating Income (Expense)					
Interest income	2,625	19	1,794	-	4,438
Interest expense	-	-	(841,899)	-	(841,899)
Other financial income (expense)	(720)	-	(2,183)	-	(2,903)
Miscellaneous other income (expense)	75,000	-	(271,477)	-	(196,477)
Annual fee to affiliate of limited partner	-	-	(16,771)	-	(16,771)
Other related party fees and expenses	-	-	(20,435)	-	(20,435)
Depreciation	-	-	(1,238,352)	-	(1,238,352)
Amortization	-	-	(108,257)	-	(108,257)
Total Nonoperating Income (Expense)	76,905	19	(2,497,580)	-	(2,420,656)
Change in Net Assets	(204,069)	19	(2,275,470)	-	(2,479,520)
Attributable to Non-controlling Interest	-	-	(2,003,734)	-	(2,003,734)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	<u>\$ (204,069)</u>	<u>\$ 19</u>	<u>\$ (271,736)</u>	<u>\$ -</u>	<u>\$ (475,786)</u>

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2010

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Revenue					
Rental income	\$ -	\$ -	\$ 1,455,632	\$ -	\$ 1,455,632
Vacancies and concessions	-	-	(143,324)	-	(143,324)
Other operating income	-	-	385,760	-	385,760
Total Revenue	-	-	1,698,068	-	1,698,068
Operating Expenses					
Salaries and employee benefits	-	-	329,313	-	329,313
Repairs and maintenance	-	-	436,165	-	436,165
Utilities	-	-	228,228	-	228,228
Property management fee	-	-	62,370	-	62,370
Property insurance	-	-	367,623	-	367,623
Miscellaneous operating expenses	288,067	-	258,896	-	546,963
Total Operating Expenses	288,067	-	1,682,595	-	1,970,662
Net Operating Income (Loss)	(288,067)	-	15,473	-	(272,594)
Nonoperating Income (Expense)					
Interest income	1,782	30	4,117	-	5,929
Interest expense	-	-	(838,227)	-	(838,227)
Other financial income (expense)	(744)	-	(4,350)	-	(5,094)
Miscellaneous other income (expense)	260	-	(28,604)	-	(28,344)
Annual fee to affiliate of limited partner	-	-	(15,550)	-	(15,550)
Gain (loss) on disposal of assets	-	-	(46,951)	-	(46,951)
Depreciation	-	-	(1,290,556)	-	(1,290,556)
Amortization	-	-	(108,557)	-	(108,557)
Total Nonoperating Income (Expense)	1,298	30	(2,328,678)	-	(2,327,350)
Change in Net Assets	(286,769)	30	(2,313,205)	-	(2,599,944)
Attributable to Non-controlling Interest	-	-	(2,332,763)	-	(2,332,763)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ (286,769)	\$ 30	\$ 19,558	\$ -	\$ (267,181)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Crescent Affordable Housing Corporation and Affiliates

We have audited the consolidated financial statements of Crescent Affordable Housing Corporation and Affiliates (the Company) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the members, management, and others within the Company, and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Charlotte, North Carolina
June 28, 2012

Crescent Affordable Housing Corporation and Affiliates

SCHEDULE OF PRIOR YEARS FINDINGS

Year ended December 31, 2011 and 2010

Finding - Deficiency in Internal Control over Financial Reporting

Deficiency 2010-1, 2009-1, 2008-1 and 2007-1

Accounting standards were not applied to consolidate the financial statements in accordance with generally accepted accounting principles, which required consolidation of limited liability companies in which Lune d'Or had controlling interest.

Certain transactions in prior years were not recorded, also resulting in a restatement of previously issued financial statements.

Status

Closed.